Supreme Court, U.S.
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No. 94-_____

In The
SUPREME COURT OF THE UNITED STATES
October Term 1993

ENCORE SYSTEMS, INC.,
VANGUARD INDUSTRIAL PLASTICS, INC.,
and GEORGE R. LEES,

Petitioners,

v.

MICHAEL LADNEY,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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March 3, 1994

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QUESTION PRESENTED

Whether the Court of Appeals for the Federal Circuit erred in affirming the decision of a district court that awarded Respondent a default judgment against each of the three Petitioners as a discovery sanction by reason of one of them failing to provide a demonstration of operating equipment, where the allegedly infringing equipment was available for inspection but was not connected with other more expensive equipment not manufactured by Petitioners, and where there was no written order defining what constituted a complete response to the discovery request.

PARTIES TO THE PROCEEDING

Petitioners (Defendants-Appellants below):

Encore Systems, Inc., a Michigan corporation having a place of business in Mt. Clemens, Michigan;

Vanguard Industrial Plastics, Inc., formerly a Michigan corporation, now inactive (Petitioner Vanguard was a subsidiary of Lees Enterprises, a Michigan corporation); and

George R. Lees, an individual having a residence in the State of Florida.

Respondents (Plaintiff-Appellee below):

Michael Ladney, an individual having a residence in the State of Florida.

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Respondent.

**PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

Encore Systems, Inc., Vanguard Industrial Plastics, Inc., and George R. Lees, petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit.

OPINION BELOW

The Order of the United States Court of Appeals for the Federal Circuit on Docket No. 93-1232 was decided and entered on October 28, 1993. This Order affirmed the district court's default judgment of liability of February 3, 1992, and reversed the district court's order accepting a magistrate judge's report and recommendation that the doctrine of collateral estoppel be applied to tortious interference claims based on the judgment of a state court case.

JURISDICTION

The judgment of the court of appeals was entered on October 28, 1993. The mandate of the court of appeals was issued on December 10, 1993, and petition for rehearing was denied on December 3, 1993. The jurisdiction of this Court is invoked under 28 U.S.C. Section 1254(1).

PROVISIONS OF STATUTES AND REGULATIONS

Rules 30(b)(6), 37(a)(2), 37(b)(2)(C), and 37(d) of the Fed. R. Civ. P.; 35 U.S.C. Sections 271(a) and 271(b).

STATEMENT OF THE CASE

The Petitioner George R. Lees is an individual having a residence in the State of Florida. The Petitioner Encore

Systems, Inc., is a Michigan corporation having a place of business in Mt. Clemens, Michigan. Prior to being named a defendant in the proceedings below, Encore manufactured and sold, among other things, equipment for injecting a gas into the center of a melt stream of a polymerizable material as it enters and fills a mold. Encore held patents related to this technology. Petitioner Vanguard Industrial Plastics, Inc., was a Michigan corporation that is not longer active. Respondent Michael Ladney is an individual having an address in the state of Florida. Mr. Ladney is also involved in the injection molding industry and holds patents related to this technology.

A. The District Court Findings

On April 26, 1989, Respondent filed suit against the Petitioners and also against a fourth defendant, Stork Plastics Machinery B.V. (Stork settled its dispute with Respondent in 1989.) The complaint, as it was subsequently amended, was based upon two counts. The first count established federal jurisdiction and was under 35. U.S.C. Sections 271(a) and 271(b) alleging that Petitioners infringed United States Patent No. 4,781,554, issued to James W. Hendry and assigned to Michael Ladney. The '554 patent is directed to an apparatus for the injection molding of thermoplastics. The alleged infringing activity was the making, using and selling of the invention claimed in the '554 patent. The second count alleged that

there was a tortious interference by Petitioners with a certain license agreement between a Mr. Indra Baxi (as licensor), an individual who was never a party to the federal case from which this appeal is taken, and a Mr. James W. Hendry (as licensee), an individual who was also never a party to the federal case. Mr. James W. Hendry had assigned his rights in the Baxi license agreement to Respondent Ladney. Subsequent to the assignment of the license agreement by Mr. Hendry to Mr. Ladney, there was a dispute over Mr. Baxi's performance under the agreement, and Mr. Ladney sued Mr. Baxi in a breach of contract action in a state court in Michigan. That suit was filed in September of 1988. A judgment of $2,250,000.00 was rendered in favor of Mr.

Ladney and against Mr. Baxi in September of 1991.

On May 22, 1989, Petitioners served their answer to the original complaint and denied any acts of infringement.

On October 2, 1989, in response to Plaintiff's Motion to Compel Discovery of Defendant Encore Systems, Inc., and Plaintiff's Motion Under Rule 37(a)(2) for an Order Compelling Answers and Responses, Magistrate Binder entered an order that ordered Petitioner Encore (and only Encore) to produce requested information within thirty days. Respondent's request for sanctions was denied because Magistrate Binder did "not find the willfulness necessary to justify an award of sanctions".

On February 2, 1990, Magistrate Charles Binder entered an Order (against Petitioner Encore only) in which he ordered that certain ones of outstanding interrogatories be answered. Sanctions were not imposed and Respondent's request for attorney fees was denied.

On April 2, 1990, Petitioners Encore, Lees and Vanguard filed their answers to Respondent's first request for production of documents.

On April 17, 1990, Magistrate Binder made a recommendation, in response to Plaintiff's Motion for Default Judgment Under Rule 37(b)(2)(C) against Petitioner Encore, that the request be denied, but that Petitioners' former counsel be "required to pay the costs of plaintiff's

counsel attributed to the bringing of this motion for sanctions".

On May 1, 1990, Respondent filed an amended complaint as discussed above that additionally alleged that Petitioners tortiously interfered with a November 5, 1986 license agreement entered into between Mr. Indra Baxi and Mr. James Hendry.

On May 31, 1990, Petitioners served their answer to the amended complaint and denied any acts of infringement or tortious interference.

On June 1, 1990, Petitioners Encore, Vanguard and Lees filed a motion to extend time for filing discovery with an affidavit and brief in support.

On July 18, 1990, Petitioner Lees filed his answers to Respondent's first set of requests for admission.

On July 25, 1990, Judge Harvey entered an order adopting Magistrate Binder's recommendations.

On August 30, 1990, Magistrate Binder entered an Order that, with respect to Petitioner Lees, stated:

> Pursuant to the agreement of counsel, counsel for Encore shall, no later than Wednesday, September 6, 1990, forward a letter to counsel for plaintiff, with a copy to this Magistrate, listing the dates as to when discovery matters with regard to George Lees will be completed.

In early September 1990, Respondent filed his notice of the taking of the deposition of Petitioner Lees. That deposition occurred on September 28, 1990. It is not entirely clear from the record

in the hands of the present counsel for Petitioners (most of the documents exchanged and received prior to present counsel's involvement were retained by former counsel), but it appears that there was not a problem in scheduling or conducting this deposition. (It should be noted that the August 30 Order of Magistrate Binder is more concerned with the deposition of Indra Baxi, the defendant in the state court case, over whom Petitioners never had control. The only other deposition activity in this case was a 30(b)(6) type deposition noticed for Petitioner Encore. This deposition was cancelled by mutual agreement of the parties.)

On September 14, 1990, Petitioner Lees filed his answers to

Respondent's first set of interrogatories and request for production of documents.

On November 2, 1990, Judge Harvey entered an Order enforcing the Order of July 25, 1990.

(In mid-December 1990, present counsel for the Petitioners became involved in this case.)

On January 8, 1991, Respondent's counsel sent counsel for Petitioners a letter by facsimile that served to "bring to [counsels'] attention numerous deficiencies in the production of documents by defendant Encore Systems, Inc. in this suit". Petitioner Encore responded in a timely manner and without further incident by producing what it had, including documents related to the Encore-Baxi License Agreement, all Stork

communications (about 200 pages), and the Robust Plastik License. A miscellany of parts of the manufacturer KMMCO were also made available for inspection and photographs were sent. No other requested documents were in the possession of either Petitioners or their replacement counsel. Petitioner Encore fully complied to the extent of its ability to Respondent's request.

This is the complete record of pre-inspection discovery as best can be recreated by Petitioners from the documents in their possession and based upon the court docket.

During an in-chambers conference of January 25, 1991, counsel for Respondent expressed the need to inspect an operating unit. Counsel for

Petitioners said he would talk with the clients about arranging the requested inspection. Respondent noticed the inspection for February 20, 1991. Petitioners confirmed the inspection. On the day of the inspection, while the allegedly infringing equipment was available, it was not connected to any injection molding machine and, therefore, was not operable. An injection molding machine was not a part of the equipment sold by Petitioners and is a large and expensive piece of equipment. Petitioners did not have access to an injection molding machine. There was a confrontation between Petitioner Lees and Respondent Ladney. Mr. Lees, under duress from the litigation and personal health problems, had imbibed some alcohol prior

to the inspection. In that state and out of obvious anger, he said to Respondent Ladney that he should punch him.

In spite of the problems of the inspection, Petitioners did not completely fail to answer the request. The heart of the alleged patent infringement relates to a unit called a "sprue bushing adapter". The sprue bushing adapter has a series of passages for gas and allows the user to gas the plastic using a convention plastic injection molding machine having a non-gassed nozzle. The adapter is disposed between the molding machine and the sprue bushing of a mold. This is different from the patent-in-suit, the '554 patent, which covers a novel nozzle and molding machine that includes a network of passages for gas. Among other parts, the sprue bushing adapter was available at the time and

place of the inspection and an inspection of this piece of equipment would have told Respondent that Petitioners were not infringing the '554 patent.

On February 25, 1991, Respondent filed his Motion For Sanctions for Defendants' Refusal to Provide Discovery. The motion was made pursuant to Rule 37(d). In the brief in support of this motion, Respondent focused in part on what he called "Defendants' History of Discovery Abuse", and set forth, in addition to the specified selected conduct, the "abuse" represented by two discovery orders ordering Indra Baxi to appear for depositions on two occasions. Whether intentional or not, this was damaging to Petitioners in that Mr. Baxi was <u>never</u> a party to the federal case and Petitioners <u>never</u> had control over his

actions and, therefore, the failure of Indra Baxi to appear for depositions was in no way the fault of Petitioners.

The decision on the Motion was assigned to Magistrate Charles Binder. On March 15, 1991, Magistrate Binder issued his Report and Recommendation recommending that Respondent's motion be granted and that a default judgment be entered "against the defendant".

The Magistrate was successfully misled by what he must have concluded was Petitioners failure to control Mr. Baxi, as he held the failure of Mr. Baxi to appear for a deposition against Petitioners as set forth on page 4 of his Report.

On January 31, 1992, the trial court accepted the recommendations of the Magistrate.

Thereafter, the only issue remaining to be litigated was the issue of damages. During an in-chambers discussion of December 18, 1991, the trial court asked the Respondent and Petitioners to brief the issue of the possible impact of res judicata or collateral estoppel on the suit by the litigated state court case of Ladney v. Baxi. As mentioned briefly above, this case was a dispute between Respondent and Mr. Baxi, an individual employed by Petitioner Encore between December 1, 1987, until his resignation on April 13, 1989. The effect of res judicata and collateral estoppel was briefed by both sides.

On April 8, 1992, Respondent subsequently filed a motion for the application of the doctrine of collateral

estoppel to the tortious interference claims based on the judgment in Ladney v. Baxi, and the issue was again referred to Magistrate Charles Binder for resolution. The Magistrate recommended that the Petitioners be collaterally estopped based on the state court case, and the trial court accepted the recommendation and entered judgment on January 20, 1993, in the amount of $2,250,000.00.

B. **The Findings of the Court of Appeals for the Federal Circuit**

On February 12, 1993, Petitioners filed their Notice of Appeal. Petitioners' Brief was filed with the Court of Appeals for the Federal Circuit on May 7, 1993. A corrected Petitioners' Brief was filed with that Court on May 14, 1993. Respondent's Brief was thereafter

filed and dated June 17, 1993. Petitioners' filed a Reply Brief with the Court on July 7, 1993. Oral arguments were held on August 30, 1993 and were attended by representatives of all the parties.

On October 28, 1993, the Court of Appeals announced its judgment. The Court affirmed the order of default of liability and vacated the lower court's award of $2,250,000 and remanded the case to the district court to determine damages.

REASONS FOR GRANTING WRIT

There are at least three reasons for granting the present petition for writ of certiorari. The first is that the court of appeals rendered a decision that is inconsistent with decisions of the 6th

Circuit, that circuit which controls. The second is that the Court of Appeals rendered a decision that is inconsistent with decisions of the U.S. Supreme Court. The third is that courts of appeal have rendered inconsistent decisions when resolving disputes involving the requirement of an order under Federal Rule of Civil Procedure 37(b), thus requiring the Supreme Court to exercise its power of supervision to thereby clarify and harmonize to the extent possible the application of this important Federal rule.

A. **Decision Inconsistent With Sixth Circuit**

The Petitioners were defaulted under Fed. R. Civ. P. 37(b)(2)(C). This section provides the following:

> Rule 37. Failure to Make or Cooperate in Discovery:

> Sanctions * * *
> (b) Failure to Comply With Order.
> * * *
> (2) Sanctions by Court in Which Action is Pending. If a party or an officer, director, or managing agent of a party or a person designated under Rule 30(b)(6) or 31(a) to testify on behalf of a party fails to obey an order to provide or permit discovery, including an order made under subdivision (a) of this rule or Rule 35, or if a party fails to obey an order entered under Rule 26(f), the court in which the action is pending may make such orders in regard to the failure as are just, and among others the following:
> * * *
> (c) An order striking out pleadings or parts thereof, or staying further proceedings until the order is obeyed, or dismissing the action or proceeding or any part thereof, or rendering a judgment by default against the disobedient party;

The rule requires that an order be in place prior to the grant of a default. No order was ever in place, nor was there even a motion for such an order, yet Petitioners were defaulted in spite of this defect.

The judgment of the Court of Appeals for the Federal Circuit runs contrary to the findings of the Sixth Circuit, which the Court of Appeals acknowledged in its decision of October 28, 1993, that regional circuit law is applied when reviewing Fed. R. Civ. P. 37(b) discovery sanctions.

A default judgment can be even more devastating than a dismissal. Generally, in the Sixth Circuit, factors to be considered in reviewing a District Court's sanction under Rule 37(b) include:

> whether the adversary was prejudiced by the dismissal [or defaulting] party's failure to cooperate in discovery, whether the dismissal [or defaulting] party was warned that failure to cooperate could lead to dismissal [or default], and whether less drastic sanctions were imposed or considered before dismissal [or default] was ordered. Regional Refuse Systems, Inc., v. Inland Reclamation Co., 842 F.2d 150, 155 (6th Cir. 1988).

The appeals court ignored or misapplied the Sixth Circuit's requirements. Specifically, it is not likely that Respondent was prejudiced by the inspection he contends was not conducted in the manner that it should have been - by his own acknowledgement in a letter of December 21, 1988, to Petitioner Lees, Respondent personally inspected the "Encore" process. And at the inspection itself he could tell from the equipment that was available whether or not Petitioners were infringing his patent. With respect to the warning required prior to imposition of the default judgment that a failed inspection would lead to default, there was none. Finally, there is no evidence that less drastic sanctions were considered and certainly none were imposed. The Court of

Appeals for the Federal Circuit certainly did not apply the controlling law, or, if it did apply the law, did not do so correctly.

In addition to the failure to apply the Regional Refuse Systems case, the appeals court apparently overlooked In Re LaMarre, 494 F.2d 753 (6th Cir. 1974), in which an individual appealed a decision finding him in contempt for not obeying an alleged order. In this case a settlement appeared in the offing, so the district judge thought that a little encouragement would do the trick. A settlement amount was on the table, but Defendant LaMarre, a claims manager of the insurance company involved in the suit, did not agree with the figure.

> To expedite matters, the court several times directed the attorneys employed by the insurer to contact LaMarre and request his presence at

> conferences. LaMarre refused four such invitations, and eventually was adjudged in criminal contempt of the district court. In a memorandum decision the District Judge used the words "required" and "ordered" when speaking of LaMarre's appearance. The Sixth Circuit noted that while these words, like Judge Guinn's words, doubtless reflected the Judge's subjective intent, the word actually communicated to the defendant was the less mandatory word "request". In Re Joyce, 506 F.2d 373, 378 (5th Cir. 1975)

In the LaMarre case the claims manager was held in contempt under the power granted the court under 18 U.S.C. Section 401 which authorizes the court to impose a fine or imprisonment for "[d]isobedience or resistance to its lawful writ, process, order, rule, decree, or command". While not decided under Rule 37, the LaMarre decision is useful in that it discusses the need for an order in the Sixth Circuit:

> To recapitulate, we believe that it goes without saying that the

> preceding "requests" of the District Judge which were entered on the court record, no matter how appropriate they may have been, were not orders which served to put LaMarre on notice that his freedom was in jeopardy if he failed to comply. This was knowledge that he was entitled to have. (LaMarre at 758-759)

In making its decision, the Sixth Circuit relied on a decision from the Second Circuit case of Berry v. Midtown, 104 F.2d 107 (2nd Cir. 1939) and quoted the following passage from that case:

> Before a person should be subject to punishment for violating a command of the court, the order should inform him of the definite terms as to the duties imposed upon him. Once we adopt the principle that an express order to one party carries implications of duties imposed upon the other, it would be difficult to set limits upon the doctrine. We believe it is a wise policy to punish as contempt only the disobedience of some express command; and such we understand to be the general rule. (Berry at 111)

Apparently the Sixth Circuit has been silent as to the necessity of an order before the application of sanctions specifically under Rule 37(b). However, the LaMarre decision shows that the circuit has not been silent as to the need for having an order in place where a person is "subject to punishment for violating a command of the court" and, indeed, the individual to be so subjected should be informed "in definite terms as to the duties imposed on him." It seems that the Sixth Circuit would not have dispensed with the need for a clear order of some type as readily as did both the District Court and the Court of Appeals for the Federal Circuit.

B. **Decision Inconsistent with U.S. Supreme Court Rulings**

The Court of Appeals for the Federal Circuit's decision to affirm the District Court's default holding also runs contrary to the holdings of at least two U.S. Supreme Court decisions that direct against the imposition of sweeping sanctions.

There were two counts in the complaint that were pending prior to the default judgment. One was for patent infringement, and the other was for tortious interference. Even though the failed inspection - the straw that broke the camel's back - was directed to the infringement count, the ultimate default sanction was not limited to discovery abuse as to the inspection, but was painted with a broad brush to penalize

Petitioners generally for what must have been perceived as overall bad conduct. This point cannot be disputed. If the district court objected singularly to the way Petitioners had conducted themselves in discovery as to the inspection, then the default sanction should have been limited to the count for patent infringement. But it swept far beyond that, and subsumed the unrelated count of tortious interference. This sort of "mere punishment" amounts to a denial of due process and is inconsistent with Hovey v. Elliott, 167 U.S. 409, 444-447 (1897). Such a sanction goes far beyond what was the intended result where a party disobeys a court order, even assuming that an order was in place.

Furthermore, even if there are grounds for the imposition of the sanction,

> the sanction must be specifically related to the particular 'claim,' which was at issue in the order to provide discovery. Insurance Corp. of Ireland, Ltd. v. Compagnie des Bauxites de Guinee, 456 U.S. 694, 707 (1982).

If the sanction was justified, the district court abused its discretion in making it so sweeping as to incorporate the count of tortious interference which is far different from the count of patent infringement. The default judgment should not have applied to both count, the Court of Appeals ignored the holdings of this Court in affirming the lower court decision.

C. **Courts of Appeal have issued Inconsistent Decisions**

The language of Fed. R. Civ. P. 37(b) provides that there must be an order in place prior its coming into force and, prior to entry of the order, there must be a motion for the order made in accordance with Rule 37(a). Fed. R. Civ. P. 37(b) is silent as to the form of the order. While the cases cited above by Petitioners offer some direction as to when default judgment should be imposed in the Sixth Circuit, that circuit apparently has not set forth the specific requirements as to the form of the order of Rule 37(b). And beyond the present case at the appellate level, the Court of Appeals for the Federal Circuit appears to have only considered two cases involving Rule 37(b) (Refac International Ltd. v. Hitachi Ltd.,

921 F.2d 1247 (Fed. Cir. 1990), and Tennant Co. v. Hako Minuteman Inc., 878 F.2d 1413 (Fed. Cir. 1989)). Neither case dealt with the form of the order necessary to impose sanctions.

A review of the remaining circuits fails to offer clarification, and, in fact, reveals considerable inconsistency caused by the lack of specifics as to the form of the order under Rule 37(b). Accordingly, Petitioners respectfully submit that the Supreme Court's exercise of its power of supervision is necessary to clarify and harmonize to the extent possible the application of this important Federal Rule.

Petitioners' request that the Supreme Court's resolve this dispute is far more than a request to perform an

academic exercise. The silence of the rule permits judges far too much discretion and often leads to the denial of due process, as was the situation for Petitioners at the district court level. While used as a matter of convenience by some judges to dispose of perhaps annoying cases, inconsistent interpretation of the requirements of the rule have harmful results on the defaulted party. The judge at the district court level of the present case used language that underscored <u>why</u> Rule 37(b) requires a clear order: "If defendants were dissatisfied with this order, it was incumbent upon them to appeal to the district judge, which they did not do." What, exactly, should Petitioners have appealed? The results of an in-chambers conference for which there was no record?

Orders are required to give form and predictability to the rule.

A review of the disparate and inconsistent holdings of the various circuits illustrates the potential for abuse by courts.

The Court of Appeals for the First Circuit held that a district court abused its discretion in dismissing a breach of contract action pursuant to Rule 37(b) for failing to answer certain deposition questions and for failing to produce certain documents where Plaintiffs filed no specific discovery order. With respect to the deposition questions, no order to compel existed. With respect to the production of documents, the Court of Appeals found that Plaintiffs' failure to produce did not violate a sufficiently explicit court order. R.W. International

Corp. v. Welch Foods, Inc., 937 F.2d 11 (1st Cir. 1991).

The Court of Appeals for the Second Circuit held that dismissal of an incarcerated prisoner's civil rights suit pursuant to Rule 37(b) because of plaintiff's refusal to answer selected ones of the questions during a deposition was improper, since plaintiff had not violated any explicit or implicit order. The only order in place was a Rule 30(a) order, but, the appellate court observed, that order did not specify what matters could or could not be inquired into at the deposition or what procedures were to be followed if a dispute arose over the manner of conducting the deposition. The court of appeals held that an order be in place before sanctions under Rule 37(b), and, failing this, no sanctions could be

imposed. Salahuddin v. Harris, 782 F.2d 1127 (2nd Cir. 1986).

Conversely,the Court of Appeals for the Fifth Circuit has held that where a party received adequate notice that certain discovery proceedings were to occur by a specific date and that party fails to comply, a court may impose sanctions without a formal motion to compel the discovery from the opposing party. In this instance there was a docket control order in place, yet a default judgment was entered under Rule 37(b) even though no order to compel was issued. McLeod, Alexander, Powel & Apffel, P.C. v. Quarles, 894 F.2d 1482 (5th Cir. 1990).

Similarly, the Court of Appeals for the Seventh Circuit held that sanctions for failure to provide discovery

may be imposed even if no formal motion to compel discovery was filed. This assumes that "adequate notice" that certain discovery proceedings must occur by a specific date was provided. Tamari v. Bache & Co. (Lebanon) S.A.L., 729 F.2d 469 (7th Cir. 1984).

The Court of Appeals for the Ninth Circuit held that an oral order of the court in discovery proceedings that "unequivocally" gives notice that certain documents are to be produced is sufficient to support a Rule 37(b) sanction. Henry v. Sneiders, 490 F.2d 315 (9th Cir. 1974).

Yet in a case involving a request for reimbursement of costs and attorneys' fees incurred by a nonparty deponent, the Court of Appeals for the District of Columbia held that a motion to compel was first necessary for Rule 37(b)

to come into play. Westmorland v. CBS, Inc., 770 F.2d 1168 (D.C. Cir. 1985).

Many such examples exist, and there is even inconsistencies within circuits (compare, for example, the Salahuddin of the Second Circuit cited above with Daval Steel Products v. M/V Fakredine, 951 F.2d 1357 (2nd Cir. 1991) in which 37(b) sanctions were imposed for failure to follow the oral order of the court). In fact, other than relatedness based on these cases being founded at least in part on Rule 37(b) issues, the inconsistencies are considerable and provide countless pitfalls for litigants. Rule 37(b) should provide order and predictability and should not risk loss of due process for failure of definiteness.

CONCLUSION

This petition for a writ of certiorari should be granted.

Respectfully submitted,

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UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

93-1232

MICHAEL LADNEY,

Plaintiff-Appellee,

v.

ENCORE SYSTEMS, INC.,
VANGUARD INDUSTRIAL PLASTICS, INC.,
AND GEORGE R. LEES,

Defendants-Appellants.

O R D E R

Dated: December 3, 1993

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

O R D E R

Before MICHEL, Circuit Judge, LOURIE, Circuit Judge, and SCHALL, Circuit Judge.

A petition for rehearing having been filed, and SUPPLEMENT TO REHEARING having also been filed by the APPELLANT,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED.

The mandate will issue December 10, 1993.

FOR THE COURT,
FRANCIS X. GINDHART, CLERK

Dated: December 3, 1993

by: /s/
Diane M. Frye
Chief Deputy Clerk

cc: ERNEST I. GIFFORD
ERNIE L. BROOKS

LADNEY V ENCORE SYS INC, 93-1232
(DCT - 89-CV-73762)

****
Note: Pursuant to Fed. Cir. R. 47.6,

this order is not citable as precedent.

It is a public record.
****

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

93-1232

MICHAEL LADNEY,

Plaintiff-Appellee,

v.

ENCORE SYSTEMS, INC.,
VANGUARD INDUSTRIAL PLASTICS, INC.,
and GEORGE R. LEES,

Defendants-Appellants.

JUDGMENT

On APPEAL from the United States District Court for the Eastern District of Michigan

in CASE NO(S). 89-CV-73762

This CAUSE having been heard and considered, it is

ORDERED and ADJUDGED:

AFFIRMED-IN-PART, VACATED-IN-PART,

AND REMANDED

Issued as a Mandate: December 10, 1993

ENTERED BY ORDER OF THE COURT

DATED: October 28, 1993

/s/
Francis X. Gindhart, Clerk

ISSUED AS A MANDATE: December 10, 1993

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

OPINION ANNOUNCING
JUDGMENT OF THE COURT

OPINION FILED AND JUDGMENT ENTERED:
October 28, 1993

The attached opinion announcing the judgment of the court in your case was filed today. The judgment was entered pursuant to Rule 36. The mandate will be issued in due course.

Each side shall bear its own costs.

Exhibits and visual aids shall be promptly retrieved by the party that lodged them with this court.

FRANCIS X. GINDHART
Clerk

cc: ERNEST I. GIFFORD
ERNIE L. BROOKS

LADNEY V ENCORE SYS INC., 93-1232
(DCT - 89-CV-73762)

NOTE: Pursuant to Fed. Cir. R. 47.6, this disposition is not citable as precedent. It is a public record. The disposition will appear in tables published periodically.

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

93-1232

MICHAEL LADNEY,

Plaintiff-Appellee,

v.

ENCORE SYSTEMS, INC.,
VANGUARD INDUSTRIAL PLASTICS, INC.
and GEORGE R. LEES,

Defendants-Appellants.

DECIDED: October 28, 1993

Before, MICHEL, LOURIE, and SCHALL, Circuit Judges.

SCHALL, Circuit Judge.

DECISION

This is an appeal from a judgment of the United States District Court for the

Eastern District of Michigan, Southern Division, awarding damages of $2,250,000 to plaintiff-appellee Michael Ladney in his patent infringement and tortious interference suit against defendants-appellants Encore Systems, Inc., Vanguard Industrial Plastics, Inc., and George R. Lees (collectively "Encore"). The judgment was based upon an order for default judgment of liability against Encore and upon an order awarding damages on the tortious interference claim after applying the doctrine of collateral estoppel based on a state court damage award. We affirm-in-part, vacate-in-part, and remand.

DISCUSSION

I

This court has stated that it applies regional circuit law when reviewing Fed. R. Civ. P. 37(b) discovery sanctions. Tennant Co. v. Hako Minuteman, Inc., 878 F.2d 1413, 1416, 11 U.S.P.Q. 2d 1303, 1305 (Fed.Cir. 1989). Since this appeal comes from the Eastern District of Michigan, the law of the Sixth Circuit controls.

In the Sixth Circuit, discovery sanctions are reviewed only for abuse of discretion. Bank One of Cleveland, N.A. v. Abbe, 916 F.2d 1067, 1073 (6th Cir. 1990) (citation omitted). If a party has the ability to comply with a discovery order and does not, dismissal or default judgment is not an abuse of discretion. Id. However, dismissal or default judgment is a sanction of the last resort

that may be imposed only if the court concludes that a party's failure to cooperate in discovery is due to willfulness, bad faith, or fault. Id. Additional factors to consider in reviewing a district court's decision to impose sanctions under Fed. R. Civ. P. 37(b) include (1) whether the adversary was prejudiced by the defaulting party's failure to cooperate in discovery, (2) whether the defaulting party was warned that failure to cooperate could lead to default, and (3) whether less drastic sanctions were imposed or considered before default was ordered. Id.

During the course of litigation, Encore willfully and repeatedly violated discovery orders, and Ladney was prejudiced by Encore's failure to cooperate in the discovery process.

Encore prevented Ladney from inspecting the "Encore process" even though the magistrate judge had ordered the inspection and Ladney had agreed to cover the costs. This inspection was necessary for Ladney and his expert to determine whether Encore was sub-licensing the "Encore process" or the "Baxi process" and whether the related apparatus of the process infringed U.S. Patent No. 4,781,544. Encore had already conducted a demonstration of the process for the benefit of its own expert. Second, the magistrate judge had previously warned Encore that further noncompliance with discovery orders could result in case dispositive sanctions. Finally, in the past the district court had imposed less drastic sanctions, and it considered such

sanctions before ordering default judgment following the events of February 20, 1991.

In sum, applying the appropriate factors, we cannot say that the district court abused its discretion in ordering a discovery sanction of default judgment under Fed. R. Civ. P. 37(b)(2)(C) against Encore. Therefore, we affirm the order of default judgment of liability.

II

Michigan law controls the requirements of collateral estoppel. A federal court determines the preclusive effect of a prior state court judgment by applying the same doctrine of collateral estoppel as the state where the judgment was rendered. See Marrese v. American Academy of Orthopaedic Surgeons, 470 U.S. 373, 380 (1985). The Michigan Supreme Court has stated that "[c]ollateral

estoppel applies to preclude relitigation of issues actually determined by final judgment and essential to the judgment in a prior action between the parties." Amalgamated Transit Union, Local 1564 v. Southeastern Mich. Transp. Auth., 437 Mich. 441, 451, 473 N.W.2d 249, 253 (1991). Put another way, in order for collateral estoppel to apply in a subsequent proceeding, the issue in that proceeding must be identical to the issue determined in the prior action. Id.

In the prior action Ladney v. Baxi, No. 88 356292 CK, the Circuit Court for Oakland County, Michigan, entered judgment on September 5, 1991, in the amount of $2,250,000 against Baxi for breaching a license agreement. Ladney asserts that those damages are identical to the damages arising from his tortious interference

claim against Encore. The problem with this assertion is that the state court award was a general verdict for several breaches of contract, including some not within the scope of the tortious interference claim here. Moreover, the jury verdict form and judgment in Ladney v. Baxi do not explain how the jury allocated damages. In short, based upon the very limited record from Ladney v. Baxi that was considered by the district court, we simply cannot determine whether the damages which were found in the state court case were damages arising from the matters which were at issue in the district court litigation.

Thus, as a matter of law, we are not persuaded that the record adequately supports a finding of identity of issues for collateral estoppel to apply to

damages in this case. Therefore, we vacate the court's award of $2,250,000 and remand the case to the district court to determine damages.

UNITED STATES DISTRICT
EASTERN DISTRICT OF MI
SOUTHERN DIVISION

MICHAEL LADNEY,

Plaintiff,

Case

vs.

HON.

ENCORE SYSTEMS, INC., VANGUARD INDUSTRIAL PLASTICS, INC., GEORGE R. LEES, STORK PLASTICS MACHINERY V.B., and VERENIGDE MACHINEFABRIEKEN STORK N.V.,

Defendants.
_____/

ENTERED: January 20, 1993

JUDGMENT FOR PLAINTIFF

Based on the following:

1) Order Dismissing Defendants Stork Plastics Machinery B.V. and Verenigde Machinefabrieken Stork N.V. entered on December 10, 1990;

2) Order Accepting the Report and Recommendation of Magistrate Judge for Default Judgment against Defendants Encore Systems, Inc., Vanguard Industrial Plastics, Inc., and George R. Lees entered on February 3, 1992;

3) Order Denying Defendants Request for Reconsideration of February 3, 1992, Order entered on May 21, 1992;

4) Order Accepting the Report and Recommendation of Magistrate Judge on the Application of Collateral Estoppel to the Tortious Interference Claims Based on Judgment in Ladney v.

Baxi entered on January 15, 1993; and,

5) Order Granting in Part and Denying in Part Plaintiff's Amended Motion for Permanent Injunction entered January 20, 1993;

IT IS ORDERED AND ADJUDGED that judgment be entered in the amount of Two Million Two Hundred and Fifty Thousand Dollars ($2,250,000) in favor of plaintiff and against defendants Encore Systems, Inc., Vanguard Industrial Plastics, Inc., and George R. Lees, jointly and severally.

IT IS FURTHER ORDERED AND ADJUDGED that defendants Encore Systems, Inc., Vanguard Industrial Plastics, Inc., and George R. Lees, their officers, agents,

servants, employees, attorneys, or any of them, and all persons acting in concert or participation with defendants, or with any of the foregoing, be and hereby are permanently enjoined:

a) from infringing, either directly or indirectly, U.S. Patent No. 4,781,554;

b) from further interference with plaintiff's contractual rights under the License Agreement of November 5, 1986; and,

c) defendants shall file with the court and serve on plaintiff, within thirty (30) days after the date of entry of this order and judgment, a

report in writing under oath setting forth in detail the manner and form in which defendants have complied with these injunctive provisions.

IT IS FURTHER ORDERED AND ADJUDGED that the clerk serve a copy of this judgment, by United States mail, on counsel for plaintiff and defendants.

/s/
BARBARA K. HACKETT
United States District Judge

Dated: January 20, 1993

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

MICHAEL LADNEY,

Plaintiff,

Case No.
89-CV-73762-DT

vs.

HON. BARBARA K. HACKETT

ENCORE SYSTEMS, INC.,
VANGUARD INDUSTRIAL
PLASTICS, INC. and
GEORGE R. LEES,

Defendants. /

ENTERED: January 15, 1993

ORDER ACCEPTING MAGISTRATE JUDGE'S REPORT AND RECOMMENDATION ON PLAINTIFF'S MOTION FOR APPLICATION OF THE DOCTRINE OF COLLATERAL ESTOPPEL TO THE TORTIOUS INTERFERENCE CLAIMS BASED ON THE JUDGMENT IN THE COMPANION CASE OF LADNEY V. BAXI

Plaintiff has filed a motion requesting that defendants be precluded from relitigating the issue of damages based on the damage findings in the companion state court case of Ladney v. Baxi. The court has reviewed the file, record, and magistrate judge's

recommendation. Objections to that report have been filed within the established time period and have been considered. They are not supported by the record or law in this case.

IT IS ORDERED that the magistrate judge's report and recommendation is accepted as the findings and conclusions of this court.

IT IS FURTHER ORDERED for the reasons well developed by the magistrate judge that plaintiff's motion be granted and that judgment be entered also in this case in the amount of Two Million Two Hundred and Fifty Thousand Dollars ($2,250,000), thus imposing joint and several liability among and between all parties in privity in these related cause of actions.

/s/
BARBARA K. HACKETT
United States District Judge

Dated: January 15, 1993.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

MICHAEL LADNEY,

Plaintiff,

CIVIL ACTION NO. 89-CV-73762-DT

v

JUDGE BARBARA K. HACKETT
MAGISTRATE JUDGE CHARLES BINDER

ENCORE SYSTEMS, INC., VANGUARD INDUSTRIAL PLASTICS, INC. and GEORGE R. LEES,

Defendants.
_____/

MAGISTRATE JUDGE'S REPORT AND RECOMMENDATION ON PLAINTIFF'S MOTION FOR APPLICATION OF THE DOCTRINE OF COLLATERAL ESTOPPEL TO THE TORTIOUS INTERFERENCE CLAIMS BASED ON THE JUDGMENT IN THE COMPANION CASE OF LADNEY V. BAXI

ENTERED: 11/06/92

I. INTRODUCTION

Pending, pursuant to an Order of Reference, is plaintiff's motion requesting that defendants be precluded from litigating the issue of damages based on the damage findings in the companion state court case of Ladney v. Baxi. Oral argument was heard on October 14, 1992.

This lawsuit involves what has become known as the "Baxi Process" developed by Mr. Baxi, and patented under the title "Process of Injection Molding with Pressurized Gas Assist," U.S. Patent No. 4,935,191, issued on June 19, 1990. Pursuant to Fed. R. Civ. Pr. 37, United States District Judge Barbara Hackett has previously issued a default judgement against the defendants. The remaining issue therefore is that of damages. Plaintiff argues that defendants are precluded by the doctrine of collateral estoppel from relitigating the issue of those damages flowing from tortious infringement of contract because the issue was resolved in the Oakland County Michigan Circuit Court in a case entitled, Ladney v. Baxi.

Mr. Baxi granted an exclusive license for the "Baxi Process" in the non-western hemisphere to Mr. James W. Hendry on November 5, 1986. Mr. Hendry assigned his interest in the "Baxi Process" to Mr. Ladney on April 20, 1987. Subsequently, in 1988, Mr. Ladney learned that although Mr. Baxi had made improvements on the process, he would not disclose the improvements to Mr. Ladney. Ladney filed suit against Baxi on September 2, 1988, for breach of contract in the Oakland County Circuit Court.

In January of that year, Mr. Baxi entered into a two-year employment agreement with Encore Molding Systems Corporation through its President, George Lees. (Ex. 11, Pl. 197). Mr. Baxi became a 25% shareholder in Encore. Mr. Baxi also executed a license agreement to

Encore enabling Encore to use the "Baxi Process" and manufacture and produce products through Vanguard and any Lees Enterprises' subsidiary through the process. (Ex. 12, Pl. 197). The "Baxi Process" became known as the "Encore Process."

On April 26, 1989, plaintiff initiated this Federal Court action against Encore Systems, Inc., George R. Lees, Stork Plastics Machinery B.V. and Verenigde Machinefabrieken Stork N. V., alleging patent infringement. (Pl. 1). The two Stork defendants were dismissed pursuant to a settlement agreement.

In June 1989, Encore Molding Systems, Inc. licensed the "Encore Process" to Stork Plastics Machinery B. V., a Netherlands Corporation. (Ex. 6, Pl. 197). Similarly, on or about March

25, 1990, Encore Molding Systems, Inc. licensed the "Encore Process" to Soko Co., Ltd., a Japanese Corporation. As a result, plaintiff filed his first amended complaint in this action on May 2, 1990, adding the claims of tortious interference with contractual rights. (Pl. 70).

Meanwhile, in the state court action, Mr. Baxi moved to stay that proceeding pending the outcome of the federal action or alternatively to dismiss the state case for lack of jurisdiction. Defendant Baxi argued that the two cases were based on identical facts while plaintiff argued that the cases were different. Apparently the motion was never decided and the state court action proceeded to trial.

In the instant action, plaintiff, after filing a motion to

compel, deposed Mr. Lees on September 28, 1990, pursuant to a court order. Mr. Baxi was deposed on December 21, 1990, also pursuant to a court order. In November 1990, plaintiff received copies of three agreements entered between Mr. Baxi and Encore: the general agreement, the confidentiality agreement, and the license agreement. Plaintiff received documents on February 14, 1991, disclosing involvement with the Stork defendants in the "Baxi Process." Subsequently, due to defendants' willful failure to provide other required discovery in this action judgment was entered in plaintiff's favor. As mentioned, the only remaining issue before this Court is the amount of damages, if any, plaintiff should receive.

The Ladney v. Baxi lawsuit went to trial in Oakland County in April 1991. A jury found in favor of plaintiff and awarded damages in the amount of $2,250,000. (Ex. 4, Pl. 197). Judgment was entered on September 5, 1991. The judgment states that, "Mr. Baxi failed to cooperate with Mr. Ladney and/or Mr. Hendry in obtaining patent protection for any process license under the agreement in non-western hemisphere countries." Further, "Mr. Baxi breached the exclusive license under the agreement. . . by authorizing others to license the process in non-western hemisphere countries" and failing "to disclose the improvements he made at Encore" despite an obligation to do so under the agreement.

Plaintiff argues that defendants are precluded from litigating in this case the issue of damages for tortious interference because the judgment in the Baxi suit should apply to this cause of action as well. Plaintiff adamantly asserts that he does not, through this motion, seek a double recovery. Rather, he seeks only the application of the Baxi judgment to the damage award in this case.

II. **ANALYSIS**

The United States Supreme Court requires a federal court determining the preclusive effect of a prior state court judgment to apply the same doctrine of collateral estoppel as the state where the earlier judgment was rendered. Marrese v. American Academy of Orthopedic Surgeons, 470 U.S. 373, 384 (1985); McAdoo v. Dallas Corp., 932 F.2d 522 524 (6th Cir. 1991).

> Collateral estoppel bars the relitigation of issues previously decided where such issues are raised in a subsequent action by the same parties based upon a different cause of action. People v Watt, 115 Mich App 172, 175; 320 NW2d 333 (1982). Essentially, in order for collateral estoppel to apply, the same ultimate issues of the first action must be involved in the second action. The parties must also have had a full opportunity to litigate the ultimate issues in the first action.

Schlumm v. Terrance J. O'Hagan, P.C., 173 Mich. App. 345, 354, 433 N.W.2d 839 (1988).

Intertwined with the concept of identity of parties in Michigan's formulation of collateral estoppel is the principle of mutuality. Howell v. Vito's Trucking & Excavating Co., 386 Mich. 37, 191 N.W.2d 313 (1971). Mutuality exists where the person attempting to take

advantage of the prior judgment would have been bound by the judgment if it was decided unfavorably. Therefore, the application of the doctrine of collateral estoppel in Michigan requires (1) identity of the parties and (2) identity of the issues.

A. Identity of the Parties

Plaintiff contends that Mr. Lees, Encore and Vanguard's assumption and exercise of control over the Baxi lawsuit satisfies the identity of parties' requirement binding these defendants to the prior state court determination. Under Michigan law, substantial identity of the parties, not precise identity, is all that is necessary to satisfy this requirement. Local 98, Detroit, Mich. of United Ass'n. of Journeymen and Apprentices of Plumbing and Pipefitting

Industry of U.S. and Canada v. Flamegas Detroit Corp., 52 Mich. App. 297, 217 N.W.2d 131 (1974). A nonparty who actively participates in a prior lawsuit is bound by the judgment as though a party. Bousson v. Mitchell, 84 Mich. App. 98, 269 N.W.2d 317 (1978).

> A person who is not a party but who controls an action, individually or in co-operation with others, is bound by the adjudications of litigated matters as if he were a party if he has a proprietary or financial interest in the judgment or in the determination of a question of fact or a question of law with reference to the same subject matter or transaction.

Id. at 102, citing Restatement Judgments § 84.

The United States Supreme Court concluded that nonparties to a prior action have had a full and fair opportunity to litigate where they:

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

MICHAEL LADNEY,

Plaintiff, Case No. 89-CV-73762-DT

vs.

HON. BARBARA K. HACKETT

ENCORE SYSTEMS, INC.,
VANGUARD INDUSTRIAL
PLASTICS, INC.,
GEORGE R. LEES,

Defendants.
_____/

ENTERED: January 31, 1992

ORDER ADOPTING THE REPORT AND RECOMMENDATION OF THE MAGISTRATE JUDGE AND GRANTING PLAINTIFF'S MOTION FOR A DEFAULT JUDGMENT AS A DISCOVERY SANCTION

On March 15, 1991, Magistrate Judge Charles Binder filed a report and recommendation on plaintiff's motion for sanctions for defendants' refusal to provide discovery. The report and recommendation details the problems with discovery in this case. The parties had

agreed at a discovery status conference to inspection of a gas injection molding process, with costs of the inspection to be covered by plaintiff. Magistrate Judge Binder directed that the inspection be conducted within the next two weeks. The inspection was scheduled. The magistrate judge describes what happened at the inspection:

> At the appointed time, counsel for plaintiff, the expert, Mr. Hendry and Mr. Ladney appeared at the Encore facility for the purposes of inspection. Counsel for the defendant informed plaintiff's party that Mr. Lees would be delayed. In fact, he was, and Lees arrived approximately 15 minutes after the appointed time. At that point, all parties proceeded to the plant floor. As they approached the production area, it was noted that although some necessary components, including gas equipment, were present, the gas injection molding machine, a large apparatus, which included the parts at issue in this case, and without which a demonstration could not take

> place, was not in the plant. Plaintiff's party at that point refused to go further. Counsel and clients engaged in conversation. As it developed, the conversation took place at slightly different spots, counsel talking together in one area and approximately 15 feet away, the parties and Mr. Hendry were in a separate group. As counsel were talking among themselves, they noted increasingly heated exchanges between the parties. Mr. Ladney and Mr. Hendry, via affidavits, . . . state that there were threats of physical violence made by Mr. Lees to Mr. Ladney.

This was not, however, the first instance of obstruction of discovery by defendants in this case. In the report and recommendation, the magistrate judge stated that "[t]his case has been marked by some of the most protracted contentious discovery proceedings I have thus far witnessed in my years as a judicial officer." Defendants have twice previously been sanctioned for willful misconduct in the discovery process. The

magistrate judge concluded that this episode was another willful attempt to obstruct crucial discovery on the part of defendants and, in light of the history of the case, any sanctions less than case dispositive were no longer appropriate. The magistrate judge recommended, pursuant to Fed.R.Civ.P. 37(b)(2)(c), that plaintiff's motion for sanctions be granted and that a default judgment be entered.

Defendants filed objections to the report and recommendation. Plaintiff requested an opportunity to respond, which the court granted, and plaintiff has responded.

A review of a case dispositive report and recommendation of a magistrate judge is de novo. Local Rule C-4(b). Federal

Rule of Civil Procedure 37(b) provides in pertinent part:

> (2) If a party or an officer, director, or managing agent of a party . . . fails to obey an order to provide or permit discovery, including an order made under subdivision (a) of this rule or Rule 35, or if a party fails to obey an order entered under Rule 26(f), the court in which the action is pending may make such orders in regard to the failure as are just, and among others the following:
>
> > (C) An order striking out pleadings or parts thereof, or staying further proceedings until the order is obeyed, or dismissing the action or proceeding or any part thereof, or rendering a judgment by default against the disobedient party.

In Patton v. Aerojet Ordnance co., 765 F2d 604, 607 (6th Cir. 1985), the court stated:

> Dismissal of an action for failure to cooperate in

> discovery is a sanction of last resort that may be imposed only if the court concludes that a party's failure to cooperate in discovery is due to willfulness, bad faith or fault.

In Taylor v. Medtronics, Inc., 861 F.2d 980 (6th Cir. 1988), the court upheld the district court's imposition of discovery sanctions. In that case, plaintiff's counsel repeatedly failed to comply with the court's orders to compel discovery from plaintiff's expert. As a sanction, the court ordered that the affidavit of plaintiff's expert be stricken from the record. The court granted defendant's motion for summary judgment finding that, in the absence of any expert opinion which would support plaintiff's claims, there was no issue of material fact in dispute and defendant was entitled to judgment as a matter of law.

The court noted that the appellate court reviews this issue under the abuse of discretion standard, even when the ultimate sanction of dismissal is imposed. "[I]f a party has the ability to comply with a discovery order and does not, dismissal is not an abuse of discretion." Id. at 985 (quoting Regional Refuse Systems v. Inland Reclamation Co., 842 F.2d 150, 154 (6th Cir. 1988)). Dismissal as a sanction for failure to comply with discovery orders has been upheld by the United States Supreme Court "because it accomplishes the dual purposes of punishing the offending party and deterring similar misconduct by future litigants." Id. at 986 (citing National Hockey League v. Metropolitan Hockey Club, 427 U.S. 639, 642-43, 96 S.Ct. 2778, 2780-81, 49 L.Ed.2d 747 (1976)).

The Sixth Circuit set out the test to be applied in reviewing a court's imposition of sanctions.

> Among the factors to be considered in reviewing the imposition of sanctions for an abuse of discretion, the appellate court should consider: (1) whether the adversary was prejudiced by the dismissed party's failure to cooperate in discovery, (2) whether the dismissed party was warned that failure to cooperate could lead to dismissal, and (3) whether less drastic sanctions were imposed or considered before dismissal was ordered.

861 F.2d at 986 (citation omitted).

A review of the record reveals that plaintiff has been prejudiced by defendants' repeated attempts to obstruct discovery in this case. The record further reveals that defendants were warned that failure to cooperate in discovery could result in imposition of the ultimate sanction (R&R page 4). The

record also shows that less drastic sanctions have been imposed on defendants in this case for previous attempts to obstruct discovery.

Defendants made several written objections. The objections are that: Mr. Lees suffered from prostate problems and was scheduled for surgery in March, 1991, which was later found to be unnecessary. In addition, Mr. Lees had several drinks just prior to the scheduled inspections. Defendants argue that these emotional pressures served to undermine his ability to cooperate. Defendants also assert that Encore has otherwise cooperated in plaintiff's "recent" discovery requests. Finally, defendants assert that Rule 37(d) sanctions are improper.

The defendants are willing to propose the following alternative to sanctions:

(a) that defendant Encore provide an operating unit for inspection within the next few days, to be ordered by the court; (b) that defendant Encore assume the cost of setting up and operating the unit which is in excess of one thousand dollars; and (c) defendant Encore will not oppose case dispositive sanctions if the proposed inspection of an operating unit does not occur for reasons within Encore's control.

The court first notes that the magistrate judge recommended sanctions pursuant to Fed. R. Civ. P. 37 (b)(2)(c), not Rule 37(d). The court finds the balance of defendants' written objections unpersuasive in either explaining or excusing defendants' conduct.

The court held a hearing on this matter. At this hearing, defendants raised several other objections.

Defendants assert that the previous instances of discovery obstruction in this case were based upon the conduct of defendants' prior counsel, Mr. Durant. Defendants argue that because Mr. Durant is no longer counsel, that discovery will proceed more smoothly in the future. The court notes that at the time of the attempted inspection, Mr. Durant was already out of the case and current counsel was in place. In light of the record in this case, the court is unwilling to lay blame solely at the feet of Mr. Durant for the discovery problems in this case.

Defendants next argue that there was no order compelling the inspection and, in the absence of such an order, sanctions are inappropriate. The court notes that at the discovery status conference, the

magistrate judge directed that the inspection be conducted within two weeks. Because the inspection was scheduled at the direction of the magistrate judge, it constitutes an order of the court. If defendants were dissatisfied with this order, it was incumbent upon them to appeal to the district judge, which they did not do.

Finally, defendants argue that default can only be entered against defendant Encore, as the inspection was noticed to that defendant only. The notice of inspection was not, in fact, noticed only to defendant Encore. Rather, the caption lists all three defendants: Encore Systems, Vanguard Industrial Plastics, and George R. Lees. Plaintiff argues that there is no difference between Encore and Vanguard, and that these

defendants have always acted as one in the litigation. Defendants offer nothing which serves to distinguish between the defendants, and offers no other reason that default should not be entered as to all three defendants. Defendants also do not dispute the active role of Mr. Lees.

The record reveals that defendant Encore Systems is a Michigan corporation and George Lees is listed as its resident agent. According to its annual report, it is engaged in research and development concerning gas injection plastic molding techniques. George Lees is active in and controls a number of corporations including both Vanguard and Encore. Vanguard and Encore have a common business address and Mr. Indra Baxi's paychecks from his employment with Encore were issued to him by Vanguard Industrial

Plastic. The attempted inspection was to be conducted at the place of business of Vanguard.

The court finds that all three defendants acted together in obstructing discovery in this case and that any default is appropriately entered against all three. The court agrees with the magistrate judge that defendants' conduct was willful and that there is an appropriate legal and factual basis for the imposition of case dispositive sanctions. Defendants' conduct in this case evidences their complete disregard for the orders of the court and for the orderly conduct of litigation. For the reasons stated herein, and for those stated on the record at the hearing held on January 21, 1992,

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

MICHAEL LADNEY,

Plaintiff, Case No. 89-CV-73762-DT

vs.

HON. BARBARA K. HACKETT

ENCORE SYSTEMS, INC., VANGUARD INDUSTRIAL PLASTICS, INC., GEORGE R. LEES,

Defendants.
_____/

ENTERED: January 31, 1992

ORDER ADOPTING THE REPORT AND RECOMMENDATION OF THE MAGISTRATE JUDGE AND GRANTING PLAINTIFF'S MOTION FOR A DEFAULT JUDGMENT AS A DISCOVERY SANCTION

On March 15, 1991, Magistrate Judge Charles Binder filed a report and recommendation on plaintiff's motion for sanctions for defendants' refusal to provide discovery. The report and recommendation details the problems with discovery in this case. The parties had

agreed at a discovery status conference to inspection of a gas injection molding process, with costs of the inspection to be covered by plaintiff. Magistrate Judge Binder directed that the inspection be conducted within the next two weeks. The inspection was scheduled. The magistrate judge describes what happened at the inspection:

> At the appointed time, counsel for plaintiff, the expert, Mr. Hendry and Mr. Ladney appeared at the Encore facility for the purposes of inspection. Counsel for the defendant informed plaintiff's party that Mr. Lees would be delayed. In fact, he was, and Lees arrived approximately 15 minutes after the appointed time. At that point, all parties proceeded to the plant floor. As they approached the production area, it was noted that although some necessary components, including gas equipment, were present, the gas injection molding machine, a large apparatus, which included the parts at issue in this case, and without which a demonstration could not take

> place, was not in the plant. Plaintiff's party at that point refused to go further. Counsel and clients engaged in conversation. As it developed, the conversation took place at slightly different spots, counsel talking together in one area and approximately 15 feet away, the parties and Mr. Hendry were in a separate group. As counsel were talking among themselves, they noted increasingly heated exchanges between the parties. Mr. Ladney and Mr. Hendry, via affidavits, . . . state that there were threats of physical violence made by Mr. Lees to Mr. Ladney.

This was not, however, the first instance of obstruction of discovery by defendants in this case. In the report and recommendation, the magistrate judge stated that "[t]his case has been marked by some of the most protracted contentious discovery proceedings I have thus far witnessed in my years as a judicial officer." Defendants have twice previously been sanctioned for willful misconduct in the discovery process. The

magistrate judge concluded that this episode was another willful attempt to obstruct crucial discovery on the part of defendants and, in light of the history of the case, any sanctions less than case dispositive were no longer appropriate. The magistrate judge recommended, pursuant to Fed.R.Civ.P. 37(b)(2)(c), that plaintiff's motion for sanctions be granted and that a default judgment be entered.

Defendants filed objections to the report and recommendation. Plaintiff requested an opportunity to respond, which the court granted, and plaintiff has responded.

A review of a case dispositive report and recommendation of a magistrate judge is de novo. Local Rule C-4(b). Federal

Rule of Civil Procedure 37(b) provides in pertinent part:

> (2) If a party or an officer, director, or managing agent of a party . . . fails to obey an order to provide or permit discovery, including an order made under subdivision (a) of this rule or Rule 35, or if a party fails to obey an order entered under Rule 26(f), the court in which the action is pending may make such orders in regard to the failure as are just, and among others the following:
>
> > (C) An order striking out pleadings or parts thereof, or staying further proceedings until the order is obeyed, or dismissing the action or proceeding or any part thereof, or rendering a judgment by default against the disobedient party.

In Patton v. Aerojet Ordnance co., 765 F2d 604, 607 (6th Cir. 1985), the court stated:

> Dismissal of an action for failure to cooperate in

> discovery is a sanction of last resort that may be imposed only if the court concludes that a party's failure to cooperate in discovery is due to willfulness, bad faith or fault.

In Taylor v. Medtronics, Inc., 861 F.2d 980 (6th Cir. 1988), the court upheld the district court's imposition of discovery sanctions. In that case, plaintiff's counsel repeatedly failed to comply with the court's orders to compel discovery from plaintiff's expert. As a sanction, the court ordered that the affidavit of plaintiff's expert be stricken from the record. The court granted defendant's motion for summary judgment finding that, in the absence of any expert opinion which would support plaintiff's claims, there was no issue of material fact in dispute and defendant was entitled to judgment as a matter of law.

The court noted that the appellate court reviews this issue under the abuse of discretion standard, even when the ultimate sanction of dismissal is imposed. "[I]f a party has the ability to comply with a discovery order and does not, dismissal is not an abuse of discretion." Id. at 985 (quoting Regional Refuse Systems v. Inland Reclamation Co., 842 F.2d 150, 154 (6th Cir. 1988)). Dismissal as a sanction for failure to comply with discovery orders has been upheld by the United States Supreme Court "because it accomplishes the dual purposes of punishing the offending party and deterring similar misconduct by future litigants." Id. at 986 (citing National Hockey League v. Metropolitan Hockey Club, 427 U.S. 639, 642-43, 96 S.Ct. 2778, 2780-81, 49 L.Ed.2d 747 (1976)).

The Sixth Circuit set out the test to be applied in reviewing a court's imposition of sanctions.

> Among the factors to be considered in reviewing the imposition of sanctions for an abuse of discretion, the appellate court should consider: (1) whether the adversary was prejudiced by the dismissed party's failure to cooperate in discovery, (2) whether the dismissed party was warned that failure to cooperate could lead to dismissal, and (3) whether less drastic sanctions were imposed or considered before dismissal was ordered.

861 F.2d at 986 (citation omitted).

A review of the record reveals that plaintiff has been prejudiced by defendants' repeated attempts to obstruct discovery in this case. The record further reveals that defendants were warned that failure to cooperate in discovery could result in imposition of the ultimate sanction (R&R page 4). The

record also shows that less drastic sanctions have been imposed on defendants in this case for previous attempts to obstruct discovery.

Defendants made several written objections. The objections are that: Mr. Lees suffered from prostate problems and was scheduled for surgery in March, 1991, which was later found to be unnecessary. In addition, Mr. Lees had several drinks just prior to the scheduled inspections. Defendants argue that these emotional pressures served to undermine his ability to cooperate. Defendants also assert that Encore has otherwise cooperated in plaintiff's "recent" discovery requests. Finally, defendants assert that Rule 37(d) sanctions are improper.

The defendants are willing to propose the following alternative to sanctions:

(a) that defendant Encore provide an operating unit for inspection within the next few days, to be ordered by the court; (b) that defendant Encore assume the cost of setting up and operating the unit which is in excess of one thousand dollars; and (c) defendant Encore will not oppose case dispositive sanctions if the proposed inspection of an operating unit does not occur for reasons within Encore's control.

The court first notes that the magistrate judge recommended sanctions pursuant to Fed. R. Civ. P. 37 (b)(2)(c), not Rule 37(d). The court finds the balance of defendants' written objections unpersuasive in either explaining or excusing defendants' conduct.

The court held a hearing on this matter. At this hearing, defendants raised several other objections.

Defendants assert that the previous instances of discovery obstruction in this case were based upon the conduct of defendants' prior counsel, Mr. Durant. Defendants argue that because Mr. Durant is no longer counsel, that discovery will proceed more smoothly in the future. The court notes that at the time of the attempted inspection, Mr. Durant was already out of the case and current counsel was in place. In light of the record in this case, the court is unwilling to lay blame solely at the feet of Mr. Durant for the discovery problems in this case.

Defendants next argue that there was no order compelling the inspection and, in the absence of such an order, sanctions are inappropriate. The court notes that at the discovery status conference, the

magistrate judge directed that the inspection be conducted within two weeks. Because the inspection was scheduled at the direction of the magistrate judge, it constitutes an order of the court. If defendants were dissatisfied with this order, it was incumbent upon them to appeal to the district judge, which they did not do.

Finally, defendants argue that default can only be entered against defendant Encore, as the inspection was noticed to that defendant only. The notice of inspection was not, in fact, noticed only to defendant Encore. Rather, the caption lists all three defendants: Encore Systems, Vanguard Industrial Plastics, and George R. Lees. Plaintiff argues that there is no difference between Encore and Vanguard, and that these

defendants have always acted as one in the litigation. Defendants offer nothing which serves to distinguish between the defendants, and offers no other reason that default should not be entered as to all three defendants. Defendants also do not dispute the active role of Mr. Lees.

The record reveals that defendant Encore Systems is a Michigan corporation and George Lees is listed as its resident agent. According to its annual report, it is engaged in research and development concerning gas injection plastic molding techniques. George Lees is active in and controls a number of corporations including both Vanguard and Encore. Vanguard and Encore have a common business address and Mr. Indra Baxi's paychecks from his employment with Encore were issued to him by Vanguard Industrial

Plastic. The attempted inspection was to be conducted at the place of business of Vanguard.

The court finds that all three defendants acted together in obstructing discovery in this case and that any default is appropriately entered against all three. The court agrees with the magistrate judge that defendants' conduct was willful and that there is an appropriate legal and factual basis for the imposition of case dispositive sanctions. Defendants' conduct in this case evidences their complete disregard for the orders of the court and for the orderly conduct of litigation. For the reasons stated herein, and for those stated on the record at the hearing held on January 21, 1992,

IT IS ORDERED that the magistrate judge's report and recommendation is hereby accepted as the findings and conclusions of the court.

IT IS FURTHER ORDERED that a default judgment enter against defendants Encore System, Inc., Vanguard Industrial Plastics, Inc., and George R. Lees and in favor of plaintiff.

/s/
BARBARA K. HACKETT
United States District Judge

Dated: January 31, 1992

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

MICHAEL LADNEY,

Plaintiff, CIVIL ACTION
NO. 89-CV-30032-PH

v

JUDGE JAMES HARVEY
MAGISTRATE JUDGE CHARLES BINDER

ENCORE SYSTEMS, INC.
INDUSTRIAL PLASTICS, INC.,
GEORGE R. LEES, STORK PLASTICS
MACHINERY B.V. and VERENIGDE
MACHINEFABRIEKEN STORK N.V.,

Defendants.
_____/

ENTERED: March 15, 1991

MAGISTRATE JUDGE'S REPORT AND RECOMMENDATION ON PLAINTIFF'S MOTION FOR SANCTIONS FOR DEFENDANTS' REFUSAL TO PROVIDE DISCOVERY

I. INTRODUCTION

Pending, pursuant to an Order of Reference from United States District Judge James Harvey, is Plaintiff's Motion for Sanctions for Defendants' Refusal to Provide Discovery. Oral argument was heard in Bay City on March 11, 1991.

Plaintiff seeks a finding that there has been willful violation of discovery orders and that case dispositive sanctions in the form of default judgment enter. At issue specifically is an inspection of a gas injection plastic molding process, scheduled to take place February 20, 1991 at the Encore facility in East Detroit.

All parties throughout the pendency of this case have acknowledged that this inspection is a crucial part of discovery. During earlier depositions of Mr. Lees (shown as Exs. A and B to the Motion), he expressed no direct opposition to such an inspection, although he stated that he could not cover costs. During a status conference, it was agreed that costs of inspection would be covered by the plaintiff. Shortly before the

inspection, in a letter dated February 19, 1991, counsel for the plaintiff, through Mr. Tuttle, confirmed the scheduling of the inspection at the Encore facility. (Ex. F to Motion). By a facsimile letter dated later the same day, Mr. Moga, current counsel for defendant, stated in part, "First, your understanding about the present inspection is correct." (Ex. G. to Motion).

At the appointed time, counsel for plaintiff, the expert, Mr. Hendry and Mr. Ladney appeared at the Encore facility for the purposes of the inspection. Counsel for the defendant informed plaintiff's party that Mr. Lees would be delayed. In fact, he was, and Lees arrived approximately 15 minutes after the appointed time. At that point, all parties proceeded to the plant floor. As

they approached the production area, it was noted that although some necessary components, including gas equipment, were present, the gas injection molding machine, a large apparatus, which included the parts at issue in the case, and without which a demonstration could not take place, was not in the plant. Plaintiff's party at that point refused to go further. Counsel and clients then engaged in conversation. As it developed, the conversations took place at slightly different spots, counsel talking together in one area and approximately 15 feet away, the parties and Mr. Hendry were in a separate group. As counsel were talking amongst themselves, they noted increasingly heated exchanges between the parties. Mr. Ladney and Mr. Hendry, via affidavits, (Exs. H and I to Motion),

state that there were threats of physical violence made by Mr. Lees to Mr. Ladney. Thereupon, as counsel for plaintiff was exiting the area, he placed a phone call to my office. Mr. Tuttle described to me in brief terms the circumstances and asked questions which I perceived to be a request for direction. I directed that the parties' concerns be placed in writing, and this motion followed.

This case has been marked by some of the most protracted contentious discovery proceedings I have thus far witnessed in my years as a judicial officer. Exhibits J through O document a series of discovery orders. In October 1989, I denied a request by plaintiff for sanctions, having not been convinced at that time that willful conduct had taken place. (Ex. J to Motion). Five months

later, defendants' predecessor counsel's repeated failure to respond to discovery requests led to a finding that sanctions were appropriate, although the sanctions were levied at that time in the form of a mandatory protective order (Ex. K to Motion.) Two months later, I again found willful conduct on the part of defendants' predecessor counsel (Ex. L). At that time, I stated, "I now find that Defendant Encore made no effort to comply with the discovery order until the day of this hearing, at which time Encore's counsel presented a group of documents to counsel for plaintiff. The documents were not correlated as to which parts of the interrogatories and requests for production the documents are responsive towards." (Ex. L, p. 2). Counsel further admitted that other documents were

missing. I therefore levied sanctions in the form of attorney fees and costs. This order was affirmed on appeal by Judge Harvey. (Ex. M). Plaintiff's predecessor counsel failed to pay these sanctions as required, an action which necessitated a further order by Judge Harvey. (Ex. N).

By the latter months of 1990, focus of discovery disputes had turned to depositions. On August 30, 1990, the parties were ordered to conduct the deposition of Mr. Baxi. (Ex. O to Motion). The parties were again warned that willful obstruction of this deposition would lead to the imposition of case dispositive sanctions. Id. This warning was repeated and yet another order issued relating to the Baxi deposition. (Ex. P to Motion). With the presence of current defense counsel in the latter

months of 1990, discovery appeared at last to be moving ahead. However, for the reasons which follow, I am forced now to conclude that willful attempts to obstruct the progress of crucial discovery have again been undertaken by defendant Encore. Moreover, in light of this past history, sanctions less than those of a case dispositive nature are, I suggest, no longer appropriate.

This case is presently scheduled for trial on Judge Harvey's 1991 trailing docket. It is amongst the first jury cases set for trial on or after June 3, 1991. Discovery is presently scheduled to terminate April 15, 1991. This case has been plagued by repeated attempts by defendants to obstruct discovery. The incidents described above, I suggest, are not only the most recent, but also the

most egregious. All parties knew that this discovery was crucial. Defendant Encore has already conducted a process demonstration of the machine at issue for the benefit of its own experts, outside the presence of plaintiff's expert witnesses.

Threfore(sic), on the basis of the evidence presented, I can reach no other conclusion but that Mr. Lees, Encore's principal, knew of the inspection, knew of its necessity and nonetheless authorized his lawyer to invite plaintiff's party to a demonstration which Mr. Lees knew could not take place by reason of the fact that machinery absolutely necessary for the demonstration was not physically present within Encore's facility. Counsel for defendant argues that there was not

willfulness, as Mr. Lees' financial condition necessitated plaintiff's payment of expenses prior to the demonstration. I find no basis on the evidence presented, nor upon the pleadings, for reaching such a conclusion. The subject of this inspection has been an ongoing matter of discussion between counsel for at least six months. To suggest at this late stage that Encore could not have presented the details of its financial requirements to plaintiff earlier is, I suggest, fallacious. For these reasons, I am compelled to conclude that there has been a willful and knowing obstruction of discovery, and I have no choice at this stage but to recommend the imposition of case dispositive sanctions against the defendant and in favor of the plaintiff.

In making this recommendation, I must make clear that I do not believe that the fact that the plaintiff's party was detained for a few minutes, or the fact that arguably threatening conduct took place, serves as any basis for my recommendation. Instead, I conclude that it was a knowing refusal by Mr. Lees to have the machinery in a position whereby the demonstration agreed upon by counsel, and obviously known to Mr. Lees, could take place. Mr. Lees was aware that the cost would be covered by the plaintiff.

Although there has been considerable prior activity in this case revolving around the conduct of predecessor defense counsel, I cannot find willful misconduct on the part of current defense counsel. Nonetheless, I cannot say that the conduct that did take place

is anything other than willful, and under the circumstances, can justify anything less than the imposition of case dispositive sanctions.

II. RECOMMENDATION

Accordingly, for the reasons stated hereinabove, **IT IS RECOMMENDED** that Plaintiff's Motion for Sanctions be **GRANTED** and that pursuant to Fed. R. Civ. P. 37(b)(2)(C), a default judgment enter against the defendant and in favor of the plaintiff.

III. REVIEW

The parties to this action may object to and seek review of this Report and Recommendation within ten (10) days of service of a copy hereof as provided for in 28 U.S.C. section 636(b)(1)(C).

Pursuant to Rule C-4(a) of the Local Rules of the United States District Court for the Eastern District of Michigan, a copy of any objections is to be served upon this Magistrate Judge. Failure to file objections constitutes a waiver of any further right of appeal. United States v. Walters, 638 F.2d 947 (6th Cir. 1981), Thomas v. Arn, 474, U.S. 140, 1065 S.Ct. 466, 88 L.Ed.2d 435 (1985).

/s/
CHARLES E. BINDER
United States Magistrate Judge

DATED: March 15, 1991

Supreme Court, U.S.
FILED
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OFFICE OF THE CLERK

No. 94-

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In The
SUPREME COURT OF THE UNITED STATES
October Term 1993

ENCORE SYSTEMS, INC.,
VANGUARD INDUSTRIAL PLASTICS, INC.,
and GEORGE R. LEES,

Petitioners,

v.

MICHAEL LADNEY,

Respondent.

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WASHINGTON, D.C. 20543

RESPONDENT'S OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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I. STATEMENT OF THE CASE

Michael Ladney ("Ladney") brought this action against Encore Systems, Inc. ("Encore"), Vanguard Industrial Plastics, Inc., and George R. Lees (collectively "Lees") for patent infringement and tortious interference with contractual rights. Ladney's patent infringement claim was based on Lees' use of Ladney's patented technology. Ladney's tortious interference claim was based on Lees' interference with Ladney's rights in a License Agreement between Indra Baxi and James Hendry. (Ladney was an assignee of Hendry's rights in the License Agreement.)

By the License Agreement, Baxi gave Hendry (and hence Ladney) an exclusive license in non-western hemisphere countries to various

technologies developed by Baxi. Lees interfered with Ladney's exclusive license rights when Lees worked with Baxi to license in non-western hemisphere countries the same technology Baxi had exclusively licensed to Hendry/Ladney.

For both of Ladney's counts against Lees, it was critical that he inspect Lees' premises. To determine whether Lees was infringing his patent, Ladney needed to know what technology Lees was using. To determine whether Lees had worked with Baxi to wrongfully license in non-western hemisphere countries technology which Baxi had exclusively licensed to Ladney, Ladney again needed to know what technology Lees was using. After much wrangling to attempt to set up an inspection, United States Magistrate Judge Charles E. Binder directed Lees to

provide for an inspection at Ladney's expense on February 20, 1991. Lees agreed to the inspection. (64a-65a.)

When Ladney arrived for the inspection, however, Lees was disruptive, and the critical components necessary for the inspection were not present. The inspection could not go forward. The district court's summary of the inspection is found on pages 48a-50a of the Appendix.

On February 25, 1991, Ladney moved for entry of a default judgment on liability on the grounds that (1) Lees had refused to permit an inspection of the process and equipment critical to the resolution of this case, despite the fact that Lees had been directed by the Magistrate Judge Binder to provide such an inspection, and Ladney had agreed to pay

for its cost; and (2) Lees had previously repeatedly violated discovery orders.

Lees' repeated discovery violations forced Magistrate Judge Binder and United States District Judge Harvey (who had initially presided over the case) to issue seven discovery orders against Lees, including three orders enforcing prior orders. Those orders are as follows:

- On October 2, 1989, Magistrate Judge Binder issued a discovery order for defendant Encore's failure to respond to Ladney's first set of interrogatories and document requests.
- On February 2, 1990, Magistrate Judge Binder issued an order enforcing his October 2, 1989 discovery order.

Ladney's request for attorneys fees was denied without prejudice.

- On April 17, 1990, Magistrate Judge Binder issued a report and recommendation on Ladney's motion for default judgment against Encore -- Magistrate Judge Binder recommended that sanctions be awarded, but that Ladney's request for default judgment be denied.
- On July 25, 1990, Judge Harvey adopted Magistrate Judge Binder's April 17, 1990 recommendation, and ordered Encore's counsel to pay Ladney attorneys fees and costs incurred in bringing Ladney's motion.
- On November 2, 1990, Judge Harvey issued an order <u>enforcing</u> his July 25, 1990 order.

- On August 30, 1990, Magistrate Judge Binder issued a discovery order requiring Messrs. George Lees and Indra Baxi to appear for a deposition during the month of September, 1990.
- On January 2, 1991, Magistrate Judge Binder issued an order enforcing his August 30, 1990 discovery order.

Magistrate Judge Binder's description of the discovery abuse is found at pages 67a-70a of the Appendix.

Judge Harvey referred the matter to Magistrate Judge Binder, who recommended that a default judgment be entered against defendants. (74a.)

On January 31, 1992, United States District Judge Barbara K. Hackett (who received the case from Judge Harvey) accepted the recommendation of Magistrate Judge Binder and ordered that a default

judgment on liability be entered against Lees in favor of Ladney. (48a-62a.) On October 28, 1993, the Federal Circuit held that the district court did not abuse its discretion in ordering a discovery sanction of default judgment under Fed. R. Civ. P. 37(b)(2)(C), and therefore affirmed the order of default judgment of liability. (12a.)

II. THE PETITION FOR WRIT OF CERTIORARI SHOULD BE DENIED

Lees argues that its Petition should be granted for three reasons:

(1) The Federal Circuit's decision is inconsistent with decisions of the Sixth Circuit;

(2) The Federal Circuit's decision is inconsistent with decisions of this Court; and

(3) The Courts of Appeal have entered inconsistent decisions regarding the requirements of an order under Federal Rule of Civil Procedure 37(b).

None of Lees' arguments are valid.

A. The Federal Circuit Correctly Applied Sixth Circuit Law

1. The Federal Circuit Applied The Three-Part Analysis Articulated In *Regional Refuse*

Lees first argues that the Federal Circuit did not correctly apply Sixth Circuit law, and in particular the three factors articulated in *Regional Refuse Sys. v. Inland Reclamation Co.*, 842 F.2d 150, 154 (6th Cir. 1988). *Regional Refuse* states that three factors -- (1) prejudice, (2) prior warning, and (3) prior imposition of less drastic sanctions -- should be considered in reviewing a default judgment sanction. The district court made findings on each of these three factors. Similarly, the Federal Circuit expressly considered each finding and affirmed the district court's decision.

a. The District Court Found (1) Prejudice, (2) Prior Warning, And (3) Progressive Sanctions

The district court found that the subject of the aborted inspection was "critical" to the resolution of this case, and that Ladney was therefore prejudiced by Lees' refusal to provide the inspection. At a January 21, 1992 hearing on Lees' objections to Magistrate Judge Binder's report on Ladney's motion for default judgment, Judge Hackett stated:

> Certainly, we can find on the record in this case, that the party was prejudiced. There's no way -- this is critical.
>
> There's no way this case can go forward without that discovery, it's the heart of this lawsuit. Repeatedly requested.
>
> (Tr. in Fed. Cir. Appendix, emphasis added.)

The district court also addressed the warning issue. Lees'

discovery abuses necessitated seven orders from Magistrate Judge Binder and Judge Harvey. In those orders, Lees was warned more than once that default judgment was possible if the discovery violations continued. Magistrate Judge Binder's findings on this issue are located at pages 69a-70a of the Appendix.

Judge Hackett made her findings at the January 21, 1992 hearing on Lees' objections:

> I must find on this record that having twice previously been sanctioned, there's no way . . . that the defendants could argue that they didn't know what would happen in a case if they failed to cooperate.

(Tr. in Fed. Cir. Appendix.)

Finally, it is clear that the district court imposed lesser sanctions before imposing the default judgment sanction. Magistrate Judge Binder and

Judge Harvey issued seven discovery orders before ordering default judgment. In his July 25, 1990 order Judge Harvey ordered monetary sanctions, even though Ladney had requested a default judgment. As Judge Hackett stated at the January 21, 1992 hearing on Lees' objections:

> [T]hese parties have been previously sanctioned. This file is voluminous and I think the Magistrate said it all when he stated straight out that this is one of the worst he's ever had.
>
> (Tr. in Fed. Cir. Appendix.)

b. The Federal Circuit Considered And Affirmed The District Court's Findings On (1) Prejudice, (2) Prior Warning, And (3) Progressive Sanctions

Lees contention that the Federal Circuit misapplied Sixth Ciruit law ignores the Federal Circuit's opinion, where the court specifically addressed each of these factors:

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The plant inspection was critical to Ladney's tortious interference count. As mentioned above, Ladney contended that Lees interfered with his

rights by licensing technology exclusively licensed to Ladney. Lees contended he was not liable for tortious interference because, among other reasons, the technology he licensed in non-western hemisphere countries was different from the technology exclusively licensed to Ladney. To determine whether Lees' licensed technology was in fact different from the technology exclusively licensed to Ladney, Ladney needed to inspect Lees' facilities. By obstructing such inspection, Lees' discovery violations went to the heart of Ladney's case -- his tortious interference case, as well as his patent infringement case. The Federal Circuit recognized this fact when it stated:

> This inspection was necessary for Ladney and his expert to determine [for tortious interference] whether Encore was

> sub-licensing the "Encore process" or the "Baxi process" and [for patent infringement] whether the related apparatus of the process infringed U.S. Patent No. 4,781,544.
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C. The Courts Of Appeal Have Not Rendered Inconsistent Decisions Regarding Rule 37(b)

Encore's final argument for its Petition is that the circuits are split regarding the particular requirements for an "order" under Fed. R. Civ. P. 37(b). To the extent there are any differences between the circuits, however, they have no bearing on this case.

Lees raised one issue below with regard to the requirements of an "order" under Rule 37(b). Lees argued that when Magistrate Judge Binder directed Lees to provide his facilities for inspection, that direction was not an "order" under

Rule 37(b), because it was not reduced to writing.

None of the cases cited by Lees states that a written order is required to impose sanctions under Rule 37(b). Indeed, several circuits have held that an order need not be written to be an "order" under Rule 37(b). *See, e.g., Daval Steel Products v. M/V Fakredine*, 951 F.2d 1357, 1361-1363 (2d Cir. 1991); *McLeod, Alexander, Powel & Apffel, P.C. v. Quarles*, 894 F.2d 1482, 1485 (5th Cir. 1990) ("[A]n order is not always a prerequisite to the imposition of sanctions."); *Tamari v. Bache & Co. (Lebanon) S.A.L.*, 729 F.2d 469, 472-473 (7th Cir. 1984) ("[A]n attorney's promise in open court to produce certain documents 'could be treated as the equivalent of an order' for Rule 37(b) purposes."); and

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Lees cites no cases inconsistent with the above. In cases where discovery sanctions were reversed, they were not reversed because the order allegedly violated was oral. Rather, they were reversed because the order did not clearly articulate what conduct was required. *See, e.g., Salahuddin v. Harris*, 782 F.2d 1127, 1131 (2d Cir. 1986).

It is unclear exactly what inconsistencies Lees is referring to when it cites these cases. What is clear is that there are no Rule 37(b) inconsistencies relevant to issues raised by Lees in this case.

III. CONCLUSION

For the foregoing reasons, Lees' Petition for Writ of Certiorari should be denied.

Respectfully submitted,

BROOKS & KUSHMAN P.C.

By: /s/

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Dated: **April 4, 1994**

Supreme Court, U.S.
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OFFICE OF THE CLERK

No. 94-

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In The
SUPREME COURT OF THE UNITED STATES
October Term 1993

ENCORE SYSTEMS, INC.,
VANGUARD INDUSTRIAL PLASTICS, INC.,
and GEORGE R. LEES,

Petitioners,

v.

MICHAEL LADNEY,

Respondent.

RESPONDENT'S OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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COUNSEL OF RECORD
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April 4, 1994

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I. STATEMENT OF THE CASE

Michael Ladney ("Ladney") brought this action against Encore Systems, Inc. ("Encore"), Vanguard Industrial Plastics, Inc., and George R. Lees (collectively "Lees") for patent infringement and tortious interference with contractual rights. Ladney's patent infringement claim was based on Lees' use of Ladney's patented technology. Ladney's tortious interference claim was based on Lees' interference with Ladney's rights in a License Agreement between Indra Baxi and James Hendry. (Ladney was an assignee of Hendry's rights in the License Agreement.)

By the License Agreement, Baxi gave Hendry (and hence Ladney) an exclusive license in non-western hemisphere countries to various

technologies developed by Baxi. Lees interfered with Ladney's exclusive license rights when Lees worked with Baxi to license in non-western hemisphere countries the same technology Baxi had exclusively licensed to Hendry/Ladney.

For both of Ladney's counts against Lees, it was critical that he inspect Lees' premises. To determine whether Lees was infringing his patent, Ladney needed to know what technology Lees was using. To determine whether Lees had worked with Baxi to wrongfully license in non-western hemisphere countries technology which Baxi had exclusively licensed to Ladney, Ladney again needed to know what technology Lees was using. After much wrangling to attempt to set up an inspection, United States Magistrate Judge Charles E. Binder directed Lees to

provide for an inspection at Ladney's expense on February 20, 1991. Lees agreed to the inspection. (64a-65a.)

When Ladney arrived for the inspection, however, Lees was disruptive, and the critical components necessary for the inspection were not present. The inspection could not go forward. The district court's summary of the inspection is found on pages 48a-50a of the Appendix.

On February 25, 1991, Ladney moved for entry of a default judgment on liability on the grounds that (1) Lees had refused to permit an inspection of the process and equipment critical to the resolution of this case, despite the fact that Lees had been directed by the Magistrate Judge Binder to provide such an inspection, and Ladney had agreed to pay

for its cost; and (2) Lees had previously repeatedly violated discovery orders.

Lees' repeated discovery violations forced Magistrate Judge Binder and United States District Judge Harvey (who had initially presided over the case) to issue seven discovery orders against Lees, including three orders enforcing prior orders. Those orders are as follows:

- On October 2, 1989, Magistrate Judge Binder issued a discovery order for defendant Encore's failure to respond to Ladney's first set of interrogatories and document requests.
- On February 2, 1990, Magistrate Judge Binder issued an order enforcing his October 2, 1989 discovery order.

Ladney's request for attorneys fees was denied without prejudice.

- On April 17, 1990, Magistrate Judge Binder issued a report and recommendation on Ladney's motion for default judgment against Encore -- Magistrate Judge Binder recommended that sanctions be awarded, but that Ladney's request for default judgment be denied.
- On July 25, 1990, Judge Harvey adopted Magistrate Judge Binder's April 17, 1990 recommendation, and ordered Encore's counsel to pay Ladney attorneys fees and costs incurred in bringing Ladney's motion.
- On November 2, 1990, Judge Harvey issued an order enforcing his July 25, 1990 order.

- On August 30, 1990, Magistrate Judge Binder issued a discovery order requiring Messrs. George Lees and Indra Baxi to appear for a deposition during the month of September, 1990.
- On January 2, 1991, Magistrate Judge Binder issued an order enforcing his August 30, 1990 discovery order.

Magistrate Judge Binder's description of the discovery abuse is found at pages 67a-70a of the Appendix.

Judge Harvey referred the matter to Magistrate Judge Binder, who recommended that a default judgment be entered against defendants. (74a.)

On January 31, 1992, United States District Judge Barbara K. Hackett (who received the case from Judge Harvey) accepted the recommendation of Magistrate Judge Binder and ordered that a default

judgment on liability be entered against Lees in favor of Ladney. (48a-62a.) On October 28, 1993, the Federal Circuit held that the district court did not abuse its discretion in ordering a discovery sanction of default judgment under Fed. R. Civ. P. 37(b)(2)(C), and therefore affirmed the order of default judgment of liability. (12a.)

II. THE PETITION FOR WRIT OF CERTIORARI SHOULD BE DENIED

Lees argues that its Petition should be granted for three reasons:

(1) The Federal Circuit's decision is inconsistent with decisions of the Sixth Circuit;

(2) The Federal Circuit's decision is inconsistent with decisions of this Court; and

(3) The Courts of Appeal have entered inconsistent decisions regarding the requirements of an order under Federal Rule of Civil Procedure 37(b).

None of Lees' arguments are valid.

A. The Federal Circuit Correctly Applied Sixth Circuit Law

1. The Federal Circuit Applied The Three-Part Analysis Articulated In *Regional Refuse*

Lees first argues that the Federal Circuit did not correctly apply Sixth Circuit law, and in particular the three factors articulated in *Regional Refuse Sys. v. Inland Reclamation Co.*, 842 F.2d 150, 154 (6th Cir. 1988). *Regional Refuse* states that three factors -- (1) prejudice, (2) prior warning, and (3) prior imposition of less drastic sanctions -- should be considered in reviewing a default judgment sanction. The district court made findings on each of these three factors. Similarly, the Federal Circuit expressly considered each finding and affirmed the district court's decision.

a. The District Court Found (1) Prejudice, (2) Prior Warning, And (3) Progressive Sanctions

The district court found that the subject of the aborted inspection was "critical" to the resolution of this case, and that Ladney was therefore prejudiced by Lees' refusal to provide the inspection. At a January 21, 1992 hearing on Lees' objections to Magistrate Judge Binder's report on Ladney's motion for default judgment, Judge Hackett stated:

> Certainly, we can find on the record in this case, that the party was prejudiced. There's no way -- this is critical.
>
> There's no way this case can go forward without that discovery, it's the heart of this lawsuit. Repeatedly requested.
>
> (Tr. in Fed. Cir. Appendix, emphasis added.)

The district court also addressed the warning issue. Lees'

discovery abuses necessitated seven orders from Magistrate Judge Binder and Judge Harvey. In those orders, Lees was warned more than once that default judgment was possible if the discovery violations continued. Magistrate Judge Binder's findings on this issue are located at pages 69a-70a of the Appendix.

Judge Hackett made her findings at the January 21, 1992 hearing on Lees' objections:

> I must find on this record that having twice previously been sanctioned, there's no way . . . that the defendants could argue that they didn't know what would happen in a case if they failed to cooperate.
>
> (Tr. in Fed. Cir. Appendix.)

Finally, it is clear that the district court imposed lesser sanctions before imposing the default judgment sanction. Magistrate Judge Binder and

Judge Harvey issued seven discovery orders before ordering default judgment. In his July 25, 1990 order Judge Harvey ordered monetary sanctions, even though Ladney had requested a default judgment. As Judge Hackett stated at the January 21, 1992 hearing on Lees' objections:

> [T]hese parties have been previously sanctioned. This file is voluminous and I think the Magistrate said it all when he stated straight out that this is one of the worst he's ever had.
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b. The Federal Circuit Considered And Affirmed The District Court's Findings On (1) Prejudice, (2) Prior Warning, And (3) Progressive Sanctions

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Lees' attack on the Federal Circuit can only be an attempt to obtain *de novo* review of the district court's findings on these points. As this Court has held, however:

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Dated: **April 4, 1994**